

# Progress on Aligning the Public Sector Finances and National Accounts between 2013 and 2015

Author: David Bailey, Office for National Statistics

Date: 1 October 2015

## Executive summary

This article summarises the main methodological differences between the estimates published in the monthly Public Sector Finances (PSF) and the annual National Accounts (NA). The article contrasts the extent to which the two outputs were aligned in September 2014 compared with September 2015, and highlights the classification changes and methodology improvements which were behind the differences.

The article concludes that the NA and the PSF datasets were more closely aligned in September 2015 than they have been for many years. The remaining methodological differences are listed and readers are reminded that new areas of divergence are likely to emerge between annual National Accounts publications as a result of the different revisions policies for the National Accounts and the Public Sector Finances. Therefore, work to align the two datasets is not a one-off piece of work but something that must be returned to regularly.

## 1 Introduction

The core UK National Accounts (NA), as published in outputs such as the Annual National Accounts (Blue Book), Quarterly National Accounts and United Kingdom Economic Accounts, are not fully consistent with data published in the UK Public Sector Finances (PSF) and related outputs. The differences between the outputs are not a new phenomenon but have existed for many years and are the result of different revision policies in the NA and the PSF. The NA being necessarily revised less frequently than the PSF due to the added complexity and integrated nature of the NA which need to balance across all sectors of the economy and not just the public sector.

It is important to note that the differences do not reflect conceptual differences in the compilation of the outputs. All NA and PSF publications are based on the National Accounts framework and are compiled in accordance with the standards set out in the European System of Accounts 2010 (ESA 2010) under European law.

This article presents some of the reasons behind the recent divergence in the NA and the PSF datasets and gives an overview of the work completed over the last year to bring the two outputs into closer alignment. The article is structured as follows:

Section 2 – provides background on the NA and the PSF outputs and the reasons why they differ;

Section 3 – provides detail on the main alignment differences between the NA and the PSF at the time of publication for the Blue Book 2013, Blue Book 2014 and Blue Book 2015, highlighting the improvements that have been made over these three years;

Section 4 – provides information on the reason for remaining differences between the NA and the PSF and ONS plans for future alignment work;

Annexes – illustrate the extent of differences between the NA and the PSF datasets in September 2015, compared with September 2014, highlighting the improvements made.

## 2 Background

### 2.1 National Accounts (NA)

The primary purpose of the NA is to provide an integrated description of all economic activity within the UK. It is used heavily by policy makers and analysts to provide a coherent macro-economic picture of the UK through key measures such as Gross Domestic Product (GDP), Household Saving Ratio and the Balance of Trade. The integrated nature of NA means that there is less flexibility for taking on revisions and so the data published in the NA are only open for revision in specific periods. The detail of which periods are open for revision varies by quarter.

The term NA in this article refers to those integrated outputs and datasets which form the core National Accounts. The outputs include (but are not limited to) the annual Blue Book and Annual Balance of Payments (Pink Book), the Quarterly National Accounts, the United Kingdom Economic Accounts and the Gross Domestic Product (preliminary and second estimates).

### 2.2 Public Sector Finances (PSF)

The primary purpose of the PSF is to inform its users of the state of the public sector finances and the fiscal position. To do this it is important that the latest events and statistical classifications are reflected in the data and so the data published in the PSF are open for comprehensive revision every month for all time periods.

The term PSF in this article refers to those outputs and datasets which form the suite of public sector finance statistics. The outputs include (but are not limited to) the monthly Public Sector Finances, the quarterly Government Deficit and Debt (under the Maastricht Treaty) bulletin and the related international transmissions of Government Finance Statistics.

### 2.3 Revisions Policies

The inconsistencies between NA and PSF are not conceptual in nature but are the result of the application of different revisions policies. The revision policies and data compilation processes for NA and PSF were deliberately separated from July 2004 in order to better meet the needs of the users of government finance statistics, as recommended by a 2002 National Statistics Quality Review. As noted above, [the PSF revisions policy](#) allows revisions to be taken on in any publication and for all time periods, but [the NA revisions policy](#) is much more restrictive, due to the integrated nature of the accounts, generally only allowing long time series revisions at a single point in the year. This means that the PSF usually incorporates data and methodological revisions affecting the public finances ahead of the NA.

Although the original intention was that the NA would come into alignment with the PSF at the earliest opportunity, the differences between the two datasets built up over a number of years. In 2012, to tackle the growing divergence, a programme of work was initiated in order to bring the datasets back into alignment or, at least, closer alignment.

### 3 Improvements in alignment over last three years

#### 3.1 Blue Book 2013

In Blue Book 2013, published in July 2013, ONS implemented a number of improvements to bring the annual NA into closer alignment with the PSF. [An article](#) explaining these improvements was published in June 2013. The alignment work took place as part of a programme of continuous development and it was highlighted at the time that further work would need to take place for Blue Book 2014 to further align both the data and the methods in the NA and PSF datasets.

When Blue Book 2013 was published, the largest methodological difference between the PSF and NA datasets was:

- **Northern Rock Asset Management (NRAM) and Bradford & Bingley (B&B):** the PSF had implemented the reclassification of NRAM and B&B to the central government sector but NA had yet to implement this classification. The period affected by this methodological difference was January 2010 onwards.

In addition to this large methodological difference, which impacted on both government debt and net borrowing, there were a number of smaller methodological and data differences.

#### 3.2 Blue Book 2014

In Blue Book 2014 (and the associated quarterly NA published in September 2014), ONS implemented further improvements in the alignment between the NA and PSF datasets including implementing the reclassification of NRAM and B&B to the central government sector in the NA.

At the same time, in September 2014, the NA and the PSF were both revised in order to make them compliant with new international standards and guidelines set out in the European System of Accounts 2010 (ESA 2010), Balance of Payments Manual 6 (BPM6) and the updated Manual on Government Deficit and Debt (MGDD). While every attempt was made to introduce the ESA 2010 changes simultaneously in the NA and the PSF this was not possible in all respects and some revisions were only made in the PSF.

The two main methodological differences between the two datasets in September 2014 were:

- **Network Rail:** The PSF had reclassified Network Rail to the central government sector, as required under ESA 2010. However, the NA still recorded Network Rail as a private non-financial corporation. The period affected by this difference was April 2004 onwards.
- **3G/4G Mobile Spectra Licenses:** The PSF had reclassified the receipts from the 3G and 4G mobile spectra auctions as rent accrued over the lifetime of the licenses, as required under ESA 2010, but the NA still recorded the receipts as sales of assets at the time of the auctions. The period affected by this difference was April 2000 onwards.

Other methodological differences included:

- **Local Government Pension Scheme (LGPS):** Both the NA and PSF included, in accordance with ESA 2010, imputed social contributions (a component of net borrowing) to reflect the shortfall in the LGPS. However, the parallel introduction of a new data source for actual contributions to local government pensions introduced some unintended revisions to the total local government compensation of employees aggregate (a component of net borrowing) in the NA data. The same revisions were not introduced into the PSF, resulting in a difference between the two datasets. The full historic time period was affected by this difference.
- **Research & Development (R&D) Grants to Overseas Bodies:** The PSF had capitalised all R&D expenditure, as required under ESA 2010. The NA had similarly capitalised most R&D expenditure but was not able, in time for Blue Book 2014, to capitalise the R&D grants to overseas bodies. The different treatment in NA to PSF had no impact on net borrowing but did impact the split between current and capital expenditure. The full historic time period was affected by the difference.
- **Expenditure related to road maintenance:** In June 2013, in the PSF, expenditure related to road maintenance was moved from current spending to capital spending. This revision took place as part of moving from a renewals recording, where maintenance costs to maintain the road network asset were recorded as current expenditure, to a depreciation model, which records the majority of maintenance costs as capital expenditure in line with the treatment of other fixed assets in the accounts. The same methodology change was implemented in NA but, although the expenditure was recorded as capital expenditure, it remained double-counted as current expenditure. The full historic time period was affected by this difference.

A series of articles explaining the revisions and improvements being made to the NA and the PSF in September 2014 were published in [December 2013](#), [February 2014](#) and [June 2014](#).

An illustration of the differences between the PSF and NA datasets, as at the end of September 2014 (when the quarterly NA consistent with Blue Book 2014 were published), can be found in Annex A. The Annex compares net borrowing, in part because this is a key fiscal measure and in part because it can be compared directly between the NA dataset and the PSF dataset without any translation. Differences between the presentational framework of the NA and the PSF (in terms of consolidation, valuation and aggregation) mean that it is less straightforward to compare directly other fiscal measures such as net debt or total public sector expenditure. The intention in presenting the Annex is to provide an illustration of the extent to which the NA and the PSF were aligned and not to provide a complete analysis of all differences across all elements of the public sector accounts.

### 3.3 Between Blue Book 2014 and Blue Book 2015

It is to be expected that between annual Blue Books the PSF dataset will diverge from the NA dataset as classifications and methodological improvements are implemented in the PSF which, due to the NA revisions policy, cannot be implemented in quarterly NA publications. Since the publication of Blue Book 2014 the PSF have included a number of further improvements either to fully comply with ESA 2010 requirements or in response to recent classification decisions.

The main changes introduced, which impacted on the alignment between the PSF and the NA, were:

- **Child Tax Credits and Working Tax Credits:** These tax credit payments were reclassified under ESA 2010 as expenditure, within social benefits, and the reclassification was implemented in the PSF in December 2014. Previously, the child tax credit and working tax credit schemes were treated as part expenditure and part negative tax receipts (with the expenditure proportion calculated as the proportion of tax credit spending which could not be offset against tax liabilities as it exceeded the tax liabilities of those receiving the tax credits). The impact of the revision was net borrowing neutral as it increased central government expenditure and central government receipts equally. The period affected by this difference was April 2003 onwards.
- **International Development Agency (IDA):** UK Government subscriptions to the IDA were reclassified, under new international statistical guidance on multi-lateral development banks, as capital transfers. This reclassification was implemented in the PSF in March 2015. Previously, the subscriptions were treated as equity injections. The impact of the revision was to increase central government net borrowing as capital transfers are a component of net borrowing whereas equity injections are not. The full historic time period was affected by this revision.
- **Vehicle Registration Fees:** Vehicle registration payments are to be recorded as taxes on production, as clarified by new international statistical guidance. This guidance was implemented in the PSF in March 2015. Previously, the payments were treated as sales of service. The impact of the revision was net borrowing neutral as it increased tax revenue and decreased government output equally. The full historic time period was affected by this revision.
- **Air Travel Organisers' Licensing (ATOL) protection contributions:** ATOL contributions from airline and travel companies are classified as taxes on production. A quality assurance exercise by ONS identified that these payments were not recorded within either the PSF or the NA and so they were introduced into the PSF in March 2015. The revision increased central government tax revenue by a small amount and, by doing so, reduced central government net borrowing. The period affected by this revision was April 2008 onwards.

### 3.4 Blue Book 2015

In Blue Book 2015 (and the associated quarterly NA published in September 2015), ONS have implemented a large number of improvements to the alignment between the NA and PSF datasets. These improvements include implementing:

- the reclassification of Network Rail
- the reclassification of 3G/4G mobile spectra auction receipts
- the correction to LGPS social contributions
- the capitalisation of R&D grants to overseas bodies
- the correction to expenditure on road maintenance
- the reclassification of child and working tax credits
- the reclassification of government subscriptions to the IDA
- the reclassification of vehicle registration fees.

The impact of all these changes is that, as of September 2015, the NA and the PSF datasets are more closely aligned than they have been for many years.

A series of articles explaining the revisions and improvements being made to the NA were published in [May 2015](#), [June 2015](#) and [September 2015](#).

An illustration of the differences between the PSF and NA datasets, as at the end of September 2015 (when the quarterly NA consistent with Blue Book 2015 were published), can be found in Annex B. The Annex compares net borrowing, in part because this is a key fiscal measure and in part because it can be compared directly between the NA dataset and the PSF dataset without any translation. Differences between the presentational framework of the NA and the PSF (in terms of consolidation, valuation and aggregation), mean that it is less straightforward to compare directly other fiscal measures such as net debt or total public sector expenditure. The intention in presenting the Annex is to provide an illustration of the extent to which the NA and the PSF were aligned and not provide a complete analysis of all differences across all elements of the public sector accounts.

#### **4 Future planned alignment work**

Although, as of September 2015, the NA and the PSF datasets are more closely aligned than they have been for many years, it is important that work continues to further improve the alignment between the two datasets and minimise the extent to which new classifications and methods changes create further divergence.

As of September 2015, the three main methodological differences between the NA and the PSF are:

- ATOL protection contributions – which are included as a tax in the PSF but are not included in the NA (either as a tax or other revenue);
- Help to Buy mortgage guarantees – which are included in the PSF as standardised guarantees (although the only impact on the fiscal aggregates are from the fees and calls related to the guarantees), in accordance with the new ESA 2010 guidance, but are not recorded in the NA;
- Crossrail Business Rate Supplements – which are included as a local government tax in the PSF but which are not included in the NA (either as a tax or other revenue).

These three differences only have very small impacts on government net borrowing and no impact on gross or net debt. In addition to these methodological differences there remain a number of data differences between the NA and the PSF.

As noted in section 3.3, it is to be expected that between annual Blue Books the PSF dataset will diverge from the NA dataset as classifications and methodological improvements are implemented in the PSF which, due to the NA revisions policy, cannot be implemented in quarterly NA publications. So it follows that the process of alignment between the NA and the PSF is not a one-off activity but something that needs to happen regularly to avoid widening divergence.

The planned scope for Blue Book 2016 will be published by ONS in the Autumn of 2015 and in this the extent of any NA to PSF alignment work will be made clear, but the published [National Accounts Medium-Term Work Plan 2015-2018](#) notes that:



“Due to the other NA priorities very limited additional alignment work is currently planned for 2016 but more alignment work is planned for Blue Book 2017. However, NA will consider individual classification decisions that are likely to have a significant impact on a case by case basis to assess whether it is possible to introduce them into the National Accounts sooner.”

## 5 Contact

David Bailey  
Government, Corporations and Classifications Division  
[david.bailey@ons.gsi.gov.uk](mailto:david.bailey@ons.gsi.gov.uk)  
+44 (0)1633 455668

## 6 References

Eurostat (1996). European System of Accounts ESA 1995, Luxembourg: Office for Official Publications of the European Communities.

Eurostat (2013). European System of Accounts ESA 2010, Luxembourg: Publications Office of the European Union.

Eurostat (2014). Manual on Government Deficit and Debt - Implementation of ESA 2010 – 2014 edition, Luxembourg: Publications Office of the European Union.

ONS (2015 Sep). ‘Public Sector Finances Revisions Policy and Practice’, available at: <http://www.ons.gov.uk/ons/guide-method/revisions/revisions-policies-by-theme/economy/public-sector-accounts-revisions-policy.pdf>

ONS (2015 Feb). ‘National Accounts Revision Policy’, available at: <http://www.ons.gov.uk/ons/guide-method/revisions/revisions-policies-by-theme/economy/national-accounts-revisions-policy.pdf>

ONS (2013 May). ‘National Accounts and Related Statistics Work Plan: 2013/14 to 2017/18’, <http://www.ons.gov.uk/ons/about-ons/get-involved/consultations-and-user-surveys/consultations/national-accounts-and-related-statistics-work-plan/index.html>

ONS (2015 Jul). ‘National Accounts Medium-Term Work Plan 2015 to 2018’, <http://www.ons.gov.uk/ons/about-ons/get-involved/consultations-and-user-surveys/consultations/national-accounts-mid-term-work-plan-2015-to-2018/index.html>

ONS(2013 Jun), ‘Improving government statistics – aligning the PSF and national accounts and other developments to public sector statistics’, <http://www.ons.gov.uk/ons/guide-method/method-quality/specific/economy/public-sector-finances/improving-government-statistics---aligning-psf---na.pdf>

ONS(2013 Dec), ‘ESA 2010: impact on PSF’, <http://www.ons.gov.uk/ons/guide-method/method-quality/specific/economy/public-sector-finances/esa-2010--impact-on-public-sector-finances.pdf>

ONS(2014 Feb), ‘Transition to ESA10: update to impact on PSF’, <http://www.ons.gov.uk/ons/guide-method/method-quality/specific/economy/public-sector-finances/transition-to-esa10--update-to-impact-on-public-sector-finances.pdf>

ONS(2014 Feb), ‘Developments to PSF statistics – February 2014 update’, <http://www.ons.gov.uk/ons/guide-method/method-quality/specific/economy/public-sector-finances/developments-to-public-sector-finance-statistics---february-2014-update.pdf>

ONS(2014 Jun), ‘Developments to PSF statistics – June 2014 update’, <http://www.ons.gov.uk/ons/guide-method/method-quality/specific/economy/public-sector-finances/developments-to-public-sector-finance-statistics---june-2014-update.pdf>

ONS(2015 May), ‘Methodological improvements to National Accounts for Blue Book 2015: Vehicle Registration Tax, Treatment of Roads, and Spending on Repairs and Maintenance of Dwellings’, <http://www.ons.gov.uk/ons/guide-method/method-quality/specific/economy/national-accounts/methodological-improvements-to-national-accounts-for-blue-book-2015-vehicle-registration-tax-treatment-of-roads-and-spending-on-repairs-and-maintenance-of-dwellings.pdf>

[accounts/changes-to-national-accounts/blue-book-and-pink-book-2015-changes/methodological-improvements-to-national-accounts-for-blue-book-2015.pdf](#)

ONS(2015 Jun), 'Impact of Blue Book 2015 Changes on Current Price Gross Domestic Product Estimates, 1997 to 2010', <http://www.ons.gov.uk/ons/rel/naa1-rd/national-accounts-articles/impact-on-gdp-current-price-annual-estimates-1997-2010/art-impact-on-gdp-current-price-annual-estimates-1997-2010.html>

ONS(2015 Sep), 'Classification changes to National Accounts for Blue Book 2015', <http://www.ons.gov.uk/ons/guide-method/method-quality/specific/economy/national-accounts/changes-to-national-accounts/blue-book-and-pink-book-2015-changes/classification-changes-to-national-accounts-for-blue-book-2015.pdf>